Barclays, Credit Suisse, Deutsche Bank Ratings Cut by S&P

By Laura Marcinek and Donal Griffin - Jul 2, 2013

Barclays Plc (BARC), Deutsche Bank AG (DBK) and Credit Suisse Group AG (CSGN) had their credit ratings lowered by Standard & Poor’s as new rules and “uncertain market conditions” threaten their business.

Long-term counterparty credit ratings for the three banks were cut to A from A+, S&P said yesterday in a statement. The company also affirmed its A long-term rating and A-1 short-term rating on UBS AG (UBSN), according to the statement. The outlook for all four companies is stable.

Banks are still in recovery from the 2008 financial crisis, which drove some economies into recession and spawned new regulations and legal probes. The four European lenders are among the most exposed to proposed rules that could reduce revenue from trading and investment banking operations, the ratings firm said.

“We consider that these banks’ debtholders face heightened credit risk owing to the industry’s tighter regulation, fragile global markets, stagnant European economies and rising litigation risk stemming from the financial crisis,” S&P said. “A large number of global regulatory initiatives are increasingly demanding for capital market operations.”

Risk Jumps

Bond risk for Credit Suisse (CS) and Barclays Bank Plc surged last week to the highest levels this year. Five-year credit-default swaps insuring the debt of Credit Suisse against non-payment advanced to 135 basis points on June 24, the highest since October, while contracts on Barclays rose to 177.7, the highest since November.

Swaps on Deutsche Bank jumped to 129.7 on the same day, the highest since March. The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent if a borrower fails to adhere to debt agreements.

“The downgrade by S&P is a reminder to investors on the risk of these lenders in the uncertain environment,” said Ronald Wan, a committee member at Hong Kong Securities and Investment Institute. “The market is expecting the U.S. economy to recover but it’s unlikely to be a very strong recovery and the fate of the quantitative easing policy is still unclear. The stock valuation of these lenders may be negatively affected by the downgrade.”

Renee Calabro, a spokeswoman for Deutsche Bank in New York, declined to comment, as did Jack Grone at Credit Suisse and Mark Lane at Barclays.

S&P maintained its ratings for UBS because it considers the Zurich-based company to be “the most active bank in reducing its exposures to investment banking,” according to the statement. UBS, Switzerland’s biggest bank by assets, said in October that it will cut about 10,000 jobs and retreat from capital-intensive trading businesses.

Volcker Rule

Regulations that could hurt profit include the U.S.’s Volcker rule, which seeks to restrict banks from wagering on trades with shareholders’ cash, as well as new European Union rules on bonuses and proposed U.S. rules for foreign banks, S&P said.

Barclays, Britain’s third-largest lender by market value, was cut in part because of its dependence on investment banking revenue, according to the statement. The London-based lender is also regulated by U.K. authorities at the “forefront of regulatory change,” S&P said.

Deutsche Bank, the biggest German lender, is facing “rising risks” in its investment-banking operations, S&P said. The Frankfurt-based firm and Barclays will both have to grapple with tougher capital and liquidity requirements for foreign banks operating in the U.S., which could crimp profit, according to the statement.

‘Volatile Revenue’
Credit Suisse, the second-biggest Swiss bank, gets about half of its revenue from investment banking, S&P said. While the Zurich-based firm has taken steps to improve its risk and increase capital, it faces a “volatile revenue and earnings stream,” the ratings company said.

Lenders have been forced by regulators to set aside more funds to protect against potential losses under the Basel III rules. While this has forced investment banks to become less risky, they are still “highly leveraged institutions” that continue to face litigation and business risks, S&P said.

“Barclays, Credit Suisse, Deutsche Bank, and UBS are among the most exposed in Europe to a combination of regulatory initiatives being undertaken globally on capital market-related businesses,” S&P said in the statement.

To contact the reporters on this story: Laura Marcinek in New York at lmarcinek3@bloomberg.net; Donal Griffin in New York at dgriffin10@bloomberg.net

To contact the editors responsible for this story: Christine Harper at charper@bloomberg.net; David Scheer at dscheer@bloomberg.net